

Message Text

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ACTION EUR-12

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FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00

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AMEMBASSY BERN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: EFIN, EEC, SZ

SUBJECT: SWISS ASSOCIATION WITH EUROPEAN MONETARY SNAKE/FINANCE
MINISTERS REACH NO DECISION

REF: A. BERN 3808

B. EC BRUSSELS 6442

C. EC BRUSSELS 5626

1. SUMMARY: SNAKE FINANCE MINISTERS REACHED NO DECISION
ON SWISS ASSOCIATION WITH THE SNAKE ON SEPT. 22 AND ASKED
THE EC CENTRAL BANK GOVERNORS TO CONTINUE TO STUDY MONETARY
PROBLEMS REGARDING SWISS ASSOCIATION. THE MEETING'S
COMMUNIQUE INDICATED THAT THE MINISTERS AGREED IN
PRINCIPLE WITH SWISS ASSOCIATION BUT OFFICIALS HERE
EXPRESS DOUBT THAT FRANCE FULLY AGREES, UNLESS THE GOS
IS WILLING TO DISCUSS FISCAL AND CAPITAL MARKET ISSUES.
THE MINISTERS PLAN TO TAKE UP SWISS ASSOCIATION
AT THEIR NEXT MEETING.
THE MINISTERS HOPE THAT THIS ISSUE CAN BE RESOLVED AT
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THAT TIME. END SUMMARY.

2. THE EC FINANCE MINISTERS WHOSE COUNTRIES PARTICIPATE IN THE EUROPEAN MONETARY SNAKE MET HERE ON SEPTEMBER 22 WITH SWISS FINANCE MINISTER CHEVALLAZ AND OTHER SWISS OFFICIALS TO DISCUSS POSSIBLE SWISS ASSOCIATION WITH THE SNAKE. THE MINISTER REACHED NO DECISION. THE MEETING'S PRESS COMMUNIQUE STATED THE MINISTERS UNANIMOUSLY FAVORED IN PRINCIPLE SWISS ASSOCIATION BUT CERTAIN TECHNICAL PROBLEMS REMAINED TO BE RESOLVED. THE MINISTERS BELIEVE THAT SWISS ASSOCIATION WOULD RE-ENFORCE THE SNAKE'S ZONE OF MONETARY STABILITY. THE MEETING ASKED THE EC COMMITTEE OF CENTRAL BANK GOVERNORS TO STUDY THE MONETARY PROBLEMS IN QUESTION AND TO REPORT TO THE NEXT MEETING OF THE SNAKE'S FINANCE MINISTERS. THE COMMUNIQUE ALSO RESTATED THE POLICY THAT THE SNAKE IS AN EC MECHANISM, WHICH IS OPEN TO NON-EC COUNTRIES WILLING TO ACCEPT ITS RULES.

3. IN PRESS CONFERENCES AFTER THE MEETING, CHEVALLAZ SAID THE GOS CONSIDERED THAT THE MEETING HAD MADE SIGNIFICANT PROGRESS BECAUSE THE MINISTERS HAD AGREED IN PRINCIPLE TO SWISS ASSOCIATION AND THE OUTSTANDING ISSUES WERE NARROWED TO TECHNICAL PROBLEMS. FRENCH FINANCE MINISTER FOURCADE, HOWEVER, REPORTEDLY TOLD THE PRESS THAT NO PROGRESS HAD BEEN MADE DURING THE MEETING. SWISS MISSION OFFICIALS SAY PRIVATELY THAT THE GOF HAS NOT CHANGED ITS POSITION TOWARD SWISS ASSOCIATION. THE DISCUSSIONS WERE DIFFICULT. FOURCADE RAISED NON-MONETARY ISSUES SUCH AS SWISS FISCAL AND CUSTOMS POLICIES AND ITS HANDLING OF FOREIGN RESIDENTS' REPATRIATION OF CAPITAL FROM SWITZERLAND. SWISS OFFICIALS MAINTAINED THAT THESE ISSUES WERE BEYOND THE COMPETENCE OF THE MEETING AND REFUSED TO LINK RESOLUTION OF THESE ISSUES TO SWISS ASSOCIATION. THE FRG AND THE DUTCH SUPPORTED THE SWISS IN THIS POSITION.

4. SWISS OFFICIALS SAY THAT THERE ARE THREE TECHNICAL ISSUES FOR THE CENTRAL BANK COMMITTEE TO DISCUSS: 1) THE ENTRY EXCHANGE RATE FOR THE SF; 2) PROVISIONS FOR LIMITED OFFICIAL USE

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SWITZERLAND SUBSEQUENTLY TO CHANGE ITS EXCHANGE RATE; AND 3) THE AMOUNT AND TERMS FOR BILATERAL SWAP CREDITS BETWEEN PARTICIPATING CENTRAL BANKS. GOS OFFICIALS SAY THAT THESE TECHNICAL ISSUES ARE ESSENTIALLY RESOLVED. THE SF ENTRY RATE WILL BE THE MARKET RATE CORRESPONDING TO THE MIDDLE OF THE SNAKE'S CENTRAL RATE AT THE TIME OF SWISS ENTRY. UNDER SNAKE RULES A PARTICIPANT

MAY CHANGE ITS RATE AFTER CONSULTING WITH OTHER SNAKE MEMBERS; THE GOS WOULD OBSERVE THIS OBLIGATION. THE SWISS WOULD BE WILLING TO ACCEPT THE CURRENT TERMS OF VERY SHORT TERM CREDITS AMONG SNAKE MEMBERS. AT THE TIME OF FRENCH RE-ENTRY THESE CREDITS WERE EXTENDED TO A FIVE MONTH PERIOD (SEE REF C) AND WERE NOT LIMITED IN AMOUNT.

5. SWISS OFFICIALS DESCRIBE THE NUB OF THE ISSUE AS HOW THE MINISTERS DEFINE TECHNICAL ISSUES. FOURCADE DEFINES THESE ISSUES BROADLY TO INCLUDE FISCAL ISSUES AND CAPITAL MARKET CONDITIONS AS WELL AS MONETARY ISSUES. THE SWISS BELIEVE THEY HAVE THE SUPPORT OF MOST SNAKE PARTICIPANTS TO KEEP THE ISSUES TO THE THREE MONETARY PROBLEMS LISTED ABOVE. THEY CONCEDE, HOWEVER, THAT THE GOF COULD OPPOSE SUCH A DEFINITION AND THUS BAR SWISS ENTRY. ALTHOUGH THE GOS FAVORS ASSOCIATION, IT REFUSES TO BROADEN THE DISCUSSION TO INCLUDE NON-MONETARY ISSUES.

5. THE SNAKE MINISTERS AGREED TO TAKE UP AGAIN SWISS ASSOCIATION AT THEIR NEXT MEETING. THIS WILL BE EITHER ON OCTOBER 20 OR NOVEMBER 17, DEPENDING ON WHETHER THE EC FINANCE COUNCIL MEETS IN OCTOBER. BELGIAN FINANCE MINISTER DE CLERCQ, WHO CHAIRED THE SNAKE MEETING, REPORTEDLY TOLD THE MEETING THAT HE EXPECTED A RESOLUTION OF THE SWISS ASSOCIATION ISSUE AT THE NEXT MEETING. DE CLERCQ DOES NOT WANT THIS ISSUE TO DRAG ON. SWISS OFFICIALS HERE SAID THE GOS MIGHT INDICATE A WILLINGNESS TO JOIN THE SNAKE AT THE NEXT MEETING. THIS WOULD PUT PRESSURE ON THE GOF TO ACCEPT SWISS ASSOCIATION. GREENWALD

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